

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 SAM-01 SAB-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 LAB-04 SIL-01 IO-11 L-03 H-02 DODE-00 PA-01

PRS-01 /098 W

----- 046339

R 041455Z FEB 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 9801

INFO AMCONSUL ALEXANDRIA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

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E.O. 11652: N/A

TAGS: EFIN, EG

SUBJECT: GOE OFFICIALS COMMENT ON PARALLEL MARKET

REF: CAIRO 1202

1. SEVERAL ITEMS OF INFORMATION HAVE COME TO HAND ON EGYPT'S PARALLEL, OR INCENTIVE RATE, FOREIGN EXCHANGE MARKET. (PARALLEL RATE IS LE 1 EQUALS \$1.70 AS COMPARED WITH LE 1 EQUALS \$2.56 OFFICIAL RATE).

2. CENTRAL BANK GOVERNOR ZANDOU TOLD US JANUARY 31 THAT TWO-THIRDS OF PARALLEL MARKET FUNDS DERIVES FROM REMITTANCES FROM ABROAD. HE SAID PRIOR TO 1971 REMITTANCES WERE NEGLIGIBLE IN AMOUNT, BUT BY 1974 TOTALLED LE 200 MILLION EQUIVALENT, MOSTLY FROM WORKERS IN SAUDI ARABIA. ZANDOU COMMENTED THAT IMF ADMONITIONS ON NEED FOR REFORMS TO PROMOTE NON-TRADITIONAL EXPORTS AND TOURISM ARE IRRELEVANT SINCE REMITTANCES ARE MOST

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IMPORTANT SOURCE OF THIS KIND FOR FOREIGN EXCHANGE.

3. FINMIN ABU ISMAIL AND MINECON SHAFEI, ON OTHER HAND, TOLD AMBASSADOR FEBRUARY 2 THAT REMITTANCES CONSISTUTE ABOUT ONE-HALF PARALLEL MARKET REVENUES. THEY SAID LE 100 MILLION EQUIVALENT COMES FROM LEGAL, RECORDED REMITTANCES, LE 90 MILLION FROM TOURISM (A FIGURE ANNOUNCED RECENTLY BY PM SALEM AS PERTAINING TO 1975) AND LE 30 MILLION FROM EXPORTS. THEY ESTIMATED

AN ADDITIONAL LE 100 MILLION IN ILLEGAL, UNRECORDED REMITTANCES ARE RECEIVED ANNUALLY. ABUT ISMAIL AND SHAFEI NOTED FURTHER THAT GOE MINISTRIES ARE UNDER INSTRUCTIONS FROM PRIME MINISTER TO CUT THEIR BUDGETS 20 PERCENT ACROSS THE BOARD (1976 BUDGET CURRENTLY IS STILL IN FINAL NEGOTIATING STAGE-SEE REFTTEL) AND THAT HALF OF RESULTANT SAVINGS, SOME LE 60 MILLION IF CUTS ARE FULLY REALIZED, WILL BE USED TO FUND PARALLEL EXCHANGE MARKET.

4. ACCORDING DEPUTY MINECON GHANDOUR, AS WELL, APPROXIMATELY ONE-HALF PARALLEL MARKET FUNDING IS FROM REMITTANCES. IN CONVERSATION WITH EMBOFF FEBRUARY 3, HE EXPRESSED DISQUIET ABOUT SHORT-TERM FUTURE OF PARALLEL EXCHANGE STRUCTURE DUE TO DIVERSION OF FUNDS TO EGYPT'S UNUSUAL ""OWN CURRENCY"" SYSTEM OF ALLOWING CERTAIN IMPORTS FINANCED (AT OFFICIAL RATE) FROM FUNDS HELD ABROAD WITHOUT FORMAL DECLARATION PROCEDURES. GHANDOUR NOTED THAT PRIVATE SECTOR PROFITS GAINED THROUGH "OWN CURRENCY" IMPORTS WILL CAUSE SERIOUS DEPLETION OF A PARALLEL MARKET AVAILABILITIES THIS YEAR UNLESS TOURISM AND TRANSFER OF GOE BUDGETARY SAVINGS CAN TAKE UP SLACK. HIS PROPOSED REMEDY IS TO PROVIDE SUFFICIENTLY LARGE FUNDING AT PARALLEL EXCHANGE RATE AND TRANSFER ALL TRANSACTIONS NOW UNDER "OWN CURRENCY" PROGRAM TO PARALLEL SYSTEM.

5. DEPUTY MINPLANNING MEGUID REMARKED TO US FEBRUARY 2 THAT GOE, IN RECOGNITION OF FUNDING PROBLEM, PLANS TO TRANSFER TO PARALLEL MARKET MECHANISM TEN PERCENT OF TOTAL IMPORTS (EXCEPT BASIC RATIONED COMMODITIES). PLAN, WHICH HE SAID WAS ACCEPTED BY CABINET, CALLS FOR SIMILAR TRANSFERS DURING YEAR, RAISING TOTAL TO 30 PERCENT. MEGUID DID NOT QUANTIFY AMOUNT OF FUNDS THAT WOULD BE GENERATED THUS BY OPERATIONS UNDER INCENTIVE EXCHANGE SYSTEM.

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6. COMMENT: THESE REMARKS BY SENIOR GOE OFFICIALS IN ECONOMIC FIELD PROVIDE USEFUL INFORMATION ON ORDER OF MAGNITUDE OF REMITTANCES TO PARALLEL MARKET, WHETHER STATED AS ONE-HALF OF TOTAL OR, INCLUDING UNRECORDED TRANSFERS, TWO-THIRDS, AND IMPORTANCE OF REMITTANCES IN FUNDING INCENTIVE RATE EXCHANGE. DEPUTY MINECON CHANDUR EXPLICITLY CONFIRMS OUR IMPRESSION HELD SOME TIME NOW THAT "OWN CURRENCY" IMPORT

PROGRAM, WHILE SERVING TO MEET EXISTING DEMAND FOR RANGE  
OF COMMODITIES AND THUS DAMPEN INFLATIONARY PRESSURES, ALSO  
WORKS TO DETRIMENT OF INCENTIVE FOREIGN EXCHANGE RATE BY  
SIPHONING OFF FUNDS WHICH OTHERWISE WOULD FIND THEIR WAY  
INFO PARALLEL MARKET.

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